

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Implement the
Commission's procurement incentive framework and
to examine the integration of Greenhouse Gas
Emissions Standards into procurement policies

R.06-04-009

BEFORE THE CALIFORNIA ENERGY COMMISSION

AB 32 Implementation – Greenhouse Gas Emissions

Docket 07-OIIP-01

**COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS
ON GREENHOUSE GAS MODELING**

In response to the Ruling of Administrative Law Judge (“ALJ”) Lakritz and ALJ Terkeurst issued on November 9, 2007 (“Ruling”), the Alliance for Retail Energy Markets (“AREM”) respectfully submits the following comments.¹

I. INTRODUCTION

The greenhouse gas (“GHG”) model that is being developed by Energy and Environmental Economics, Inc. (“E3”) will be instrumental in the development of GHG reduction policies for California. The model will inform the amount of GHG reductions that will be required of the electricity sector, the rules for a cap-and-trade program, and

¹ AREM is a California mutual benefit corporation formed by electric service providers that are active in California's direct access market. The positions taken in this filing represent the views of AREM but not necessarily those of any individual member of AREM or the affiliates of its members with respect to the issues addressed herein.

the repercussions of other policy trade-offs that will impact the distribution of GHG reduction costs among businesses, industries, and consumers. It is thus essential that the model accurately reflect California's electricity sector.

AReM appreciates the work that E3 has completed so far. In particular, AReM is pleased with the transparency and flexibility of the model. However, AReM is concerned that the model essentially overlooks direct access ("DA"), even though DA customers represent 10% of total California load and nearly 20% of large commercial and industrial load.² This omission results in a model that *does not* accurately reflect California's electricity sector. It also opens the door for policy decisions that unintentionally require DA customers and electric service providers ("ESPs") to shoulder more than their fair share of the costs of GHG reductions.

II. DIRECT ACCESS IN E3 MODEL

The GHG model that E3 is developing separates the California electricity sector into seven groups: PG&E, SCE, SDG&E, LADWP, SMUD, other northern California providers, and other southern California providers.³ ESPs, which together serve significantly more load than SMUD and a comparable load to SDG&E, are not modeled as a separate group.⁴ Instead, ESPs in PG&E and SDG&E service territory are grouped

² Supplemental Direct Access Implementation Activities Report, Statewide Summary, October 15, 2007. <http://www.cpuc.ca.gov/PUC/energy/electric/Electric+Markets/Direct+Access/dasr.htm>

³ CPUC GHG Modeling Stage 1 Documentation, p. 41, Table 3.

⁴ In 2006, SMUD and SDG&E served roughly 12,000 and 20,000 retail GWh, respectively, while ESPs served 20,000 GWh of DA load. See SMUD's 2006 Annual Report, p. 10 (<http://www.smud.org/about/reports-pdfs/2006-annualreport.pdf>); Sempra 2006 Statistical Report, p. 17 (<http://www.sempra.com/financials/2006report/statistical.pdf>); and Supplemental Direct Access Implementation Activities Report, Statewide Summary, December 31, 2006.

together with publicly owned utilities (“POUs”) in the “other” categories, and ESPs in SCE service territory are grouped together with SCE.⁵

ESPs have different financing structures and resources than both public and regulated utilities, so it is equally inappropriate to group ESPs together with POUs as it is to group them together with SCE.⁶ These mixed groups are proverbial fruit baskets, combining apples and oranges in a manner that impedes analysis and distorts results. For example, POUs benefit from municipal bonds and other public financing, and IOUs benefit from lower-cost financing owing to their low risk profiles as regulated entities. ESPs do not have access to these resources and instead obtain higher-cost private financing. In addition, many POUs and IOUs have long-term contracts with large federal hydro projects, and some own nearly depreciated hydro or nuclear generation resources. ESPs do not have access to these low-cost and low-GHG emission resources and instead procure power via short- or medium-term contracts at market prices. On account of these differences, the baseline GHG emissions and the cost of compliance with GHG restrictions are larger for ESPs than they are for many POUs and IOUs. Grouping ESPs together with these other utilities obscures this difference and could result in greater restrictions and higher costs being inadvertently imposed on ESPs.

Furthermore, the E3 model considers *cost* rather than *price* of generation and thus does not recognize the difference in procurement costs to IOUs, POUs, and ESPs that

⁵ While ESPs serve a large share of the load in the “other” categories, it appears that E3 thinks of these categories as if they are wholly comprised of POUs. In fact, the “other northern California” category is sometimes referred to in the model documentation as “Northern Other POUs” or “NorCalMunis.” See, for example, CPUC GHG Modeling Stage 1 Documentation, Energy and Environmental Economics, Inc., pp. 40, 50- 52, 61, 62, 68. http://www.ethree.com/GHG/R0604009_Attachment_B_v2.pdf.

⁶ The model documentation does not explain why SCE direct access customers are treated differently from PG&E and SDG&E direct access customers.

result from their different financing structures. AReM recommends that differential financing options be added into the model in order to take these important differences into account. However, if differential financing options are incorporated into the model while ESPs remain categorized together with POUs and IOUs, the cost impacts to ESPs predicted by the model will be further distorted, since POUs and IOUs tend to have lower cost financing options than ESPs. In particular, cost impacts to ESPs will appear from the model to be lower than they would in fact be.

In addition, as a result of ESPs not being separately considered in the E3 model, DA loads and ESP resources are not properly accounted for. For example, the IOU load reduction that should occur once direct access is reopened has not been included, not even as a sensitivity analysis. Also, generation resources are allocated in the model based on contracts. Since ESPs typically enter into long-term contracts in California at this time, their resources are largely estimated based on unallocated resources. These resources may not have similar emissions and cost profiles to the actual resources used by ESPs.

III. CONCLUSION

E3's model should not be relied on for intra-sector policy assessments until the resources, costs, and loads of ESPs are realistically integrated. AReM proposes that a working group be established to determine how this can best be accomplished. AReM is confident that with this adjustment and with continued refinements to the model inputs, E3's model will be a useful policy tool.

AReM is also supportive of other working groups that were proposed in the November 14th GHG modeling workshop. In particular, AReM supports the

establishment of working groups to consider carbon credit allocation options and flexible trading options. AReM may also be interested in participating in other working groups that address aspects of the model input and structure.

Respectfully submitted,


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Date: January 7, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **Comments of the Alliance for Retail Energy Markets on Greenhouse Gas Modeling** on all parties of record in proceeding **R.06-04-009** by serving an electronic copy on their email addresses of record and by mailing a properly addressed copy by first-class mail with postage prepaid to each party for whom an email address is not available.

Executed on January 7, 2008, at Woodland Hills, California.



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